

SOUTHWEST MICHIGAN
REGIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name SW MICHIGAN REGIONAL AIRPORT	County BERRIEN
Fiscal Year End JUNE 30, 2006	Opinion Date JULY 24, 2006	Date Audit Report Submitted to State August 9, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

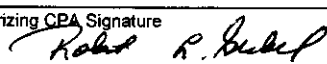
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) GERBEL & COMPANY, P.C.		Telephone Number 269-983-0534	
Street Address 830 PLEASANT STREET PO BOX 44		City ST. JOSEPH	State MI
		Zip 49085	
Authorizing CPA Signature 		Printed Name ROBERT L. GERBEL	License Number 3953

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

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Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the Southwest Michigan Regional Airport Authority's (the Authority) financial performance provides an introduction to the financial statements for the year ending June 30 2006. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statement.

Mission Statement

It is the mission of the Southwest Michigan Regional Airport Authority Board to provide safe, efficient, customer-friendly, environmentally sensitive and economically self-sustaining air transportation facilities responsive to the community's needs.

Goals

1. Assure compliance with federal, state and local laws regulating the environment, safety, security and operation of the airport
2. Assure the highest level of customer service through consultant evaluations, surveys, suggestions from users, local businesses and tourism officials, as well as monitoring industry trends and identifying and completing projects.
3. Attain the highest level of financial performance through operational benchmarking to achieve the highest financial return and lowest operational expenditures compared to other like airports and other industry models.
4. Promote and market the use of air transportation facilities and services to assure community awareness and understanding and to maximize utilization.
5. Provide state of the art air transportation facilities
6. Protect air transportation facilities from non-compatible development.

Overview of the Financial Statements

The Authority's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP). The Authority is structured as a single enterprise fund that reports as a business-type activity, with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and are depreciated (except land and construction in progress) over

their useful lives. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following this MD&A are the basic financial statements of the Authority together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide the readers with a broad overview of the Authority's finances.

The **Statement of Net Assets** presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Authority's financial position.

The **Statement of Revenues, Expenses, and Changes in Net Assets** presents information showing how the Authority's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The **Statement of Cash Flows** relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

Significant Events

The Authority is currently involved in land acquisition for Runway Safety Area (RSA) Improvements which represent an increase in Authority assets. The 51 parcels of Area 1 of the RSA is completed. In Area 2 there are 100 parcels which we are currently acquiring, 39 are owner occupied homes and 40 are tenant occupied homes, 15 Vacant Homes and 6 vacant lots. To date 31 home owners relocated to new homes, one owner to senior living facility and one owner to a rental property. Tenant moves to date are 22 tenants to rental properties, 13 tenants to home ownership and 2 tenants moved in with relatives.

The relocations were completed under federal guidelines to insure the families were moved into decent safe and sanitary homes. The communities in the area are benefiting in homes which were boarded up and are being renovated for the relocatees. The newly converted tenants to home owners are now adding to the tax base in these newly renovated homes. They have been given the opportunity for quality of life improvements which ultimately improves the overall community.

We continue to see the synergy of our Runway Safety Area Project spread throughout the area with people cleaning up their properties and making improvements to their homes. Property values are increasing in the area and providing economic benefits for the tax base of the local governments. The overall quality of life and renewed interest in the community are evident as we witness these improvements.

With a Michigan Economic Development Grant a new airport entrance road is currently under construction which will make it easier for airport users to access the airport directly off of Business Loop 94 onto Urbandale and drive directly into the airport. This feature will help in attracting new business opportunities here at the airport.

The authority has made several equipment purchases this past year, to give the airport the capability to perform additional maintenance tasks in-house and not have to contract out or rent equipment. With all of the land acquisitions a new 20 foot Bat Wing Mower Attachment was purchased to assist in grass cutting and reduce man-hours.

The airport personnel are making improvements to the facilities and the property. We have replaced the Terminal windows with double pane glass to help reduce increasing operating costs with a grant from MDOT. We also received a grant from MDOT for Runway 9/27 resurfacing, extending the life out 20 years. The Dredging materials of the St Joseph River Harbor were brought out to the airport providing fill material for future improvements. T-Hangar repairs are ongoing and all 40 were repainted by the staff as we continue to try to extend the life of these older facilities. The staff also painted the runways, taxiways and streets this year.

Financial Highlights

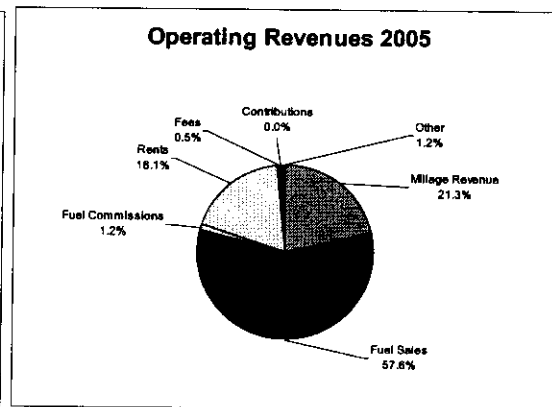
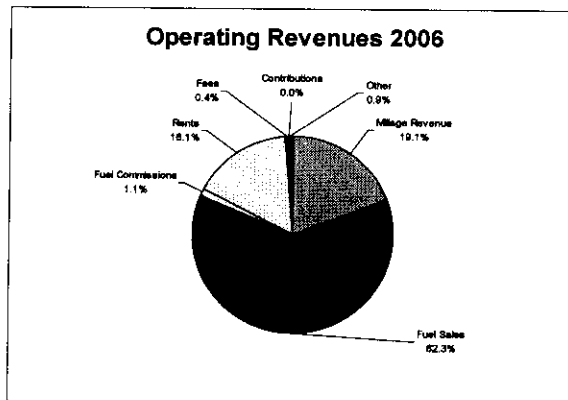
The Authority continues to operate in the black with the full understanding of future planned expenditures and the responsibilities of the Runway Safety Area (RSA) Improvement Projects which are still in the planning stages and project details that need to be finalized. The project costs continue to increase and are updated annually in our 5 year plan. We continue to work with the Federal, State and Local Governments to ensure the timely flow of grant money to complete the required RSA federally mandated requirements.

Financial Position

The following represents the Authority's financial position for the year ending June 30:

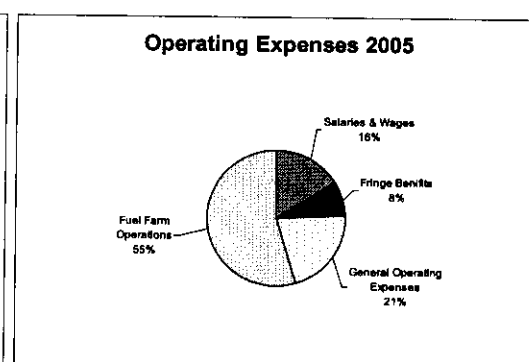
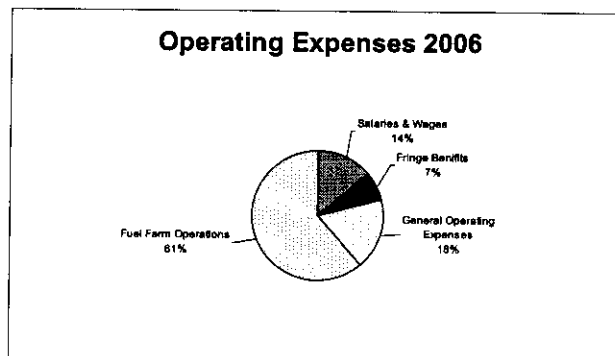
REVENUES

Operating Revenues	2006	2005
Millage Revenue	\$ 306,622	\$ 293,079
Fuel Sales	1,639,518	957,321
Fuel Commissions	13,891	17,550
Rents	243,568	248,110
Fees	8,393	6,584
Contributions	-	-
Other	15,803	14,243
Total Operating Revenues	\$ 2,227,795	\$ 1,536,887



Operating Expenses

Operating Expenses	2006	2005
Salaries & Wages	\$ 183,246	\$ 181,863
Fringe Benefits	100,124	92,072
General Operating Expenses	261,677	231,309
Fuel Farm Operations	1,419,655	804,276
Total Operating Expenses	\$ 1,964,702	\$ 1,309,520



Assets and Liabilities

Assets	<u>2006</u>	<u>2005</u>
Capital Assets	\$1,171,260	\$887,171
Current Assets	<u>932,483</u>	<u>865,857</u>
Total Assets	\$2,103,743	\$1,753,028
Liabilities		
Current Liabilities	\$109,520	\$179,001
Long Term Liabilities	<u>420,198</u>	<u>472,723</u>
Total Liabilities	\$529,718	\$651,724

Net Assets

The following represents the Authority's Statements of Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Net Assets – Beginning of year	\$1,101,304	\$ 869,327
Prior period adjustment – NOTE 9	<u>(22,794)</u>	<u> </u>
Adjusted Net Assets – Beginning of the Year	\$1,078,510	\$ 869,327
Net Income for the Year	<u>495,515</u>	<u>231,977</u>
Net Assets – End of Year	<u>\$ 1,574,025</u>	<u>\$1,101,304</u>
Invested in Capital Assets, Net of Related Dept	\$1,171,260	\$ 887,171
Unrestricted	<u>402,765</u>	<u>214,133</u>
Total Net Assets	\$1,574,025	\$1,101,304

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

BOARD MEMBERS

Phil Manni
St. Joseph Charter Township

Chairperson

Dwight Pete Mitchell
City of Benton Harbor

Vice-Chairperson

Kevin Luhrs
City of St. Joseph

Secretary

Al Todd
Lincoln Charter Township

Treasurer

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

July 24, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southwest Michigan Regional Airport Authority
Benton Harbor, Michigan

We have audited the accompanying financial statements of the business-type activities and the major fund of the Southwest Michigan Regional Airport Authority as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southwest Michigan Regional Airport Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Southwest Michigan Regional Airport Authority, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages I through IV are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Michigan Regional Airport Authority's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gerbel & Company, P.C.

Right. On time.

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SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Net Assets

	<u>June 30,</u>	
Assets	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 218,802	\$ 299,665
Investments	359,180	345,579
Accounts receivable	287,546	153,658
Inventory	31,518	31,518
Prepaid expenses	<u>35,437</u>	<u>35,437</u>
Total Current Assets	\$ 932,483	\$ 865,857
Property, Plant, and Equipment - NOTE 3		
Including accumulated depreciation of \$289,380 for 2006		
and \$238,865 for 2005	<u>1,171,260</u>	<u>887,171</u>
TOTAL ASSETS	<u>\$ 2,103,743</u>	<u>\$ 1,753,028</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of notes payable - NOTE 5	\$ 52,525	\$ 52,525
Accounts payable	1,063	97,214
Accrued payroll	6,039	6,039
Other current liabilities	<u>49,893</u>	<u>23,223</u>
Total Current Liabilities	\$ 109,520	\$ 179,001
Long-term Liabilities:		
Notes payable - NOTE 5	<u>420,198</u>	<u>472,723</u>
Total Liabilities	\$ 529,718	\$ 651,724
Net Assets - Unrestricted	<u>1,574,025</u>	<u>1,101,304</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,103,743</u>	<u>\$ 1,753,028</u>

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Revenues and Expenses
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	<u>Budget</u>	<u>2006 Actual</u>	<u>Variance Positive (Negative)</u>	<u>2005 Actual</u>
Operating Revenues:				
Millage revenue	\$ 287,000	\$ 306,622	\$ 19,622	\$ 293,079
Fuel sales	1,200,200	1,639,518	439,318	957,321
Fuel commissions	16,000	13,891	(2,109)	17,550
Rents	181,795	243,568	61,773	248,110
Fees	6,626	8,393	1,767	6,584
Other	13,600	15,803	2,203	14,243
Total Operating Revenues	<u>\$ 1,705,221</u>	<u>\$ 2,227,795</u>	<u>\$ 522,574</u>	<u>\$ 1,536,887</u>
Operating Expenses:				
Salaries and wages	\$ 210,432	\$ 183,246	\$ 27,186	\$ 181,863
Fringe benefits	100,452	100,124	328	92,072
General operating expenses	454,810	261,677	193,133	231,309
Fuel farm operations	1,093,027	1,419,655	(326,628)	804,276
Total Operating Expenses	<u>\$ 1,858,721</u>	<u>\$ 1,964,702</u>	<u>\$ (105,981)</u>	<u>\$ 1,309,520</u>
Net Operating Income (Loss)	<u>\$ (153,500)</u>	<u>\$ 263,093</u>	<u>\$ 416,593</u>	<u>\$ 227,367</u>
Nonoperating Revenues (Expenses):				
Interest income	\$ 3,500	\$ 18,335	\$ 14,835	\$ 6,741
Interest expense	-	-	-	(2,306)
Berrien County grant - capital expenditures	150,000	214,000	64,000	-
State grant - capital expenditures	-	87	87	527
Loss on sale of assets	-	-	-	(352)
Net Nonoperating Income	<u>\$ 153,500</u>	<u>\$ 232,422</u>	<u>\$ 78,922</u>	<u>\$ 4,610</u>
NET INCOME FOR THE YEAR	<u>\$ -</u>	<u>\$ 495,515</u>	<u>\$ 495,515</u>	<u>\$ 231,977</u>

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Changes in Net Assets
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
Net Assets - Beginning of year	\$ 1,101,304	\$ 869,327
Prior period adjustment - NOTE 9	<u>(22,794)</u>	<u>-</u>
Adjusted Net Assets - Beginning of year	\$ 1,078,510	\$ 869,327
Net income for the year	<u>495,515</u>	<u>231,977</u>
NET ASSETS - END OF YEAR	<u>\$ 1,574,025</u>	<u>\$ 1,101,304</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Cash Flows
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities:		
Received from user charges	\$ 1,787,285	\$ 1,190,328
Received from assessments	306,622	293,079
Payments to employees for services	(186,943)	(188,709)
Payments for workers' compensation and fringe benefits	(100,124)	(93,582)
Payments to suppliers for goods and services	(1,719,395)	(909,613)
 Net cash provided by operating activities	 <u>\$ 87,445</u>	 <u>\$ 291,503</u>
Cash Flows From Capital and Related Financing Activities:		
Repayment of loan principal	\$ (52,525)	\$ (129,044)
Interest expense	-	(2,306)
Nonoperating grants received	214,087	527
Acquisition of capital assets	(334,604)	(283,497)
Sale of capital assets	-	2,000
 Net cash used by capital and related financing activities	 <u>\$ (173,042)</u>	 <u>\$ (412,320)</u>
Cash Flows From Investing:		
Interest on investments	\$ 18,335	\$ 6,741
 Net increase in cash and cash equivalents	 \$ (67,262)	 \$ (114,076)
Cash, cash equivalents, and temporary investments - July 1, 2005	<u>645,244</u>	<u>759,320</u>
 Cash, cash equivalents, and temporary investments - June 30, 2006	 <u>\$ 577,982</u>	 <u>\$ 645,244</u>
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	\$ 263,093	\$ 227,367
Adjustment to reconcile operating income (loss) to net cash used by operating activity:		
Depreciation	50,515	42,821
(Increase) Decrease in assets:		
Accounts receivable	(133,888)	(53,480)
Inventory	-	(11,187)
Prepaid insurance	-	3,960
Increase (Decrease) in liabilities:		
Accounts payable	(96,151)	82,996
Accrued liabilities	3,876	(974)
 Net cash used by operating activities	 <u>\$ 87,445</u>	 <u>\$ 291,503</u>

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Southwest Michigan Regional Airport Authority (the "Authority") conform to accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has elected to implement the provisions of the Statement.

A. Reporting Entity

The Southwest Michigan Regional Airport Authority was authorized under Michigan Law by the Community Airports Act: Public Act 206 of 1957. The Authority was formed to operate, maintain, and improve the Southwest Michigan Regional Airport and it is governed by a Board consisting of one representative from each of the member municipalities. The membership as of June 30, 2006 consists of the Cities of Benton Harbor and St. Joseph, and the Charter Townships of Lincoln and St. Joseph, all located in Berrien County, Michigan.

The Authority reports as a Business-Type Activity, which relies to a significant extent on fees and charges for support. This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges, or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

B. Basis of Accounting

The accrual basis of accounting is followed by the Southwest Michigan Regional Airport Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

C. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Inventory

Value of fuel inventory is calculated at cost using the first in, first out method.

E. Fixed Assets and Depreciation

Fixed assets are stated at cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments over \$500 are capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	7 - 10 years
Computers	5 years
Vehicles	5 years
Building improvements	40 years
Land Improvements	20 years

F. Property Tax Revenue

Property taxes attach as an enforceable lien on property as of December 31, and are levied on the following July 1 and December 1. Property taxes become available for expenditure and are thus recognized as revenue in the fiscal year they are levied.

G. Risk Management

The Authority carries commercial insurance for risks of loss, including torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

H. Fund Balance Reserves

A fund balance reserve arises from statutory requirements or actions already taken by the Authority. The reserved portion of the fund balance identifies those amounts segregated for future purposes or not available to finance expenditures in the subsequent fiscal year.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Operating and Nonoperating Revenue

Operating revenue is defined as revenue raised in operation of the airport. Nonoperating revenue includes other revenue, such as capital grants, that do not directly fund general operations of the Airport.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2006

NOTE 2 - CASH AND INVESTMENTS

Cash and Equivalents - Cash and equivalents are stated at cost. Investment policies are determined by the Board of Directors. The Authority is authorized to deposit in federally insured banks, credit unions and savings and loan associations. All deposits are held in the name of Southwest Michigan Regional Airport Authority. The Authority's cash and equivalents are in accordance with statutory authority.

Investments - The Authority is authorized to invest in bonds and other direct obligations of the United States, commercial paper rated at the time of purchase within the two highest classifications which matures not more than 270 days after the date of purchase, and various U.S. government, federal agency, and instrumentality obligations. The Authority's investments are in accordance with statutory authority.

Interest Rate Risk - The Authority minimizes interest rate risk by not allowing investments with maturities longer than two years. Designated reserve funds may be invested in securities exceeded two years provided the maturity of such investments coincided with the expected use of the funds.

As of June 30, 2006 the Authority had the following investments and maturities:

	<u>Fair Market Value</u>	<u>Less Than One Year</u>	<u>One to Three Years</u>
Centennial Government Trust	\$ 359,180	\$ 359,180	\$ -
Total Investments	<u>\$ 359,180</u>	<u>\$ 359,180</u>	<u>\$ -</u>

Credit Risk - The Authority is limited to investments authorized by PA 20 of 1943. Certificates of deposit, savings accounts, deposit accounts, or depository receipts must be with a state or nationally chartered bank, a state or federally chartered savings and loan association, or a state or federally chartered savings bank. These institutions shall either be a member of the FDIC or a member of the Federal Savings and Loan Insurance Corporation. The Authority's funds were deposited in one financial institution that meets these requirements. As of June 30, 2006, the carrying amount of the Authority's deposits was \$218,802 and the respective bank balances totaled \$414,267. Of the total bank balance, the FDIC covered \$100,000.

Concentration of Credit Risk - The Authority's policy states that the investments may have varying maturities, avoid high credit risk, and should include the use of readily available funds.

Custodial Credit Risk - The Board of Directors has approved various banking institutions that meet the criteria set fourth in the investment policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2006

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

A summary of changes in property, plant and equipment is as follows:

	Ending Balance June 30, 2005	Additions	Adjustments and Retirements	Ending Balance June 30, 2006
Equipment	\$ 341,191	\$ 44,365	\$ -	\$ 385,556
Vehicles	30,252	-	-	30,252
Computers	14,056	900	-	14,956
Building improvements	17,206	234	-	17,440
Construction in progress:				
RSA project - AEP line	138,050	-	(234)	137,816
RSA project - Land acquisition	305,794	166,890	234	472,918
RSA project - Other	-	35,325	-	35,325
Closed projects	70,124	79,120	-	149,244
Land improvements	141,852	7,423	-	149,275
Land	67,511	347	-	67,858
	<u>\$ 1,126,036</u>	<u>\$ 334,604</u>	<u>\$ -</u>	<u>\$ 1,460,640</u>
Less: accumulated depreciation	238,865	50,515	-	289,380
Net property, plant, and equipment	<u>\$ 887,171</u>	<u>\$ 284,089</u>	<u>\$ -</u>	<u>\$ 1,171,260</u>

NOTE 4 - GRANT PROJECTS IN PROCESS

The Southwest Michigan Regional Airport Authority is involved in various grant projects with the Federal Aviation Administration and the State of Michigan.

There are grants accepted by the Authority in which projects are in progress. The local share of these approved grants in progress amounts to an estimate of \$12,884. The Authority has paid in \$20,750 toward these projects, resulting in an overpayment of \$7,866, which will be applied toward the costs required to complete the projects.

In addition to the above grants, the Authority has also entered into a five-year development plan to extend its runway and improve airport safety. At the completion of this project, it is estimated that the Authority's share of the project's cost will be \$551,320. As of June 30, 2006, the Airport's estimated liability for the portion of the project completed is \$280,581; however, the Authority has already made payments of \$678,325 towards project costs, leaving an overpayment by the Authority of \$397,744. This overpayment will be applied to future costs of the project.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2006

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2006:

	<u>Notes</u>
Balance - July 1, 2005	\$ 525,248
Additions	-
Retirements and payments	<u>52,525</u>
Balance - June 30, 2006	\$ 472,723
Less current portion	<u>52,525</u>
Long-term portion	<u>\$ 420,198</u>

Notes payable at June 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Whirlpool Corporation noninterest bearing note, payable \$4,377 monthly through July 2015.	\$ 472,723	\$ 525,248
Total Notes Payable	<u>\$ 472,723</u>	<u>\$ 525,248</u>

The annual requirements to amortize all applicable debt outstanding as of June 30, 2005, including interest payments of \$0 are as follows:

<u>June 30,</u>	<u>Debt</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 52,525	\$ -	\$ 52,525
2008	52,525	-	52,525
2009	52,525	-	52,525
2010	52,525	-	52,525
2011	52,525	-	52,525
2012-2015	<u>210,098</u>	<u>-</u>	<u>210,098</u>
Total	<u>\$ 472,723</u>	<u>\$ -</u>	<u>\$ 472,723</u>

NOTE 6 - PENSION PLAN

The employees of the Southwest Michigan Regional Airport Authority are members of the Benton Harbor City Employees Pension System. Under this system, some of the employees are covered for retirement and Social Security. The pension plan calls for amortization of unfunded accrued liabilities over a period of forty years. Pension expense for the years ended June 30, 2006 and 2005 was \$7,034 and \$6,855 respectively.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2006

NOTE 7 - SICK LEAVE

The Southwest Michigan Regional Airport Authority adopted a personnel policy which allows certain employees to be paid for sick leave accumulated as of the adoption of the policy. Upon retirement, an employee will be entitled to payment for the sick leave up to a maximum of 30 days at the employee's straight hourly wage. However, one employee falls under the previous policy in which a maximum of 60 days is allowed. As of June 30, 2006 and 2005, total sick leave for both policies has accumulated in the amount of \$26,279 and \$22,794 respectively.

NOTE 8 - LEASE - WHIRLPOOL CORPORATION

The Southwest Michigan Regional Airport Authority assumed a lease agreement entered into by the Southwest Michigan Regional Airport Board and Whirlpool Corporation on November 18, 1985. This agreement amended the original lease dated November 15, 1973 covering certain premises at the Airport. The term of the lease is thirty years, ending June 14, 2015. Whirlpool Corporation has agreed to pay the Airport at least \$1,800 a month for 360 consecutive months in exchange for rental of the hangar. The amount increases annually based on the Consumer Price Index. In addition, the Airport was indebted to Whirlpool Corporation for the sum of \$1,575,740 as of June 15, 1985 which arose from certain sums of money advanced to the Airport for various improvements for the premises leased. The amount outstanding as of June 30, 2006 is \$472,723. Whirlpool Corporation has also agreed to reduce the Airport's indebtedness by \$4,377 for 360 consecutive months in exchange for the rental of the hangar. The following is a schedule of the future minimum rental payments required under the operating lease as of June 30, 2006:

<u>June 30,</u>	
2007	\$ 74,125
2008	74,125
2009	74,125
2010	74,125
2011	74,125
2012-2015	<u>296,496</u>
	<u>\$ 667,121</u>

NOTE 9 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2006, a prior period adjustment of \$22,794 was made to record the amount of accumulated sick leave payable as of June 30, 2005.

NOTE 10 - MILLAGE REVENUE

In 1996 a ten-year millage was voted for airport operations by the Cities of St. Joseph and Benton Harbor and the Charter Townships of St. Joseph and Lincoln. The December 2006 tax levy will be the final year under the millage and will fund operations through June 30, 2007. Discussions are currently in progress to determine future revenue funding for years ending June 30, 2008 and beyond.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Schedule of Operating Expenses

	Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
Operating Expenses:		
Salaries and wages	\$ 183,246	\$ 181,863
Fringe Benefits	\$ 100,124	\$ 92,072
General Operating Expenses:		
Auto and travel	\$ 895	\$ 707
Bad debt expense	1,130	-
Capital improvements	5,349	972
Communication	6,667	6,601
Depreciation	50,515	42,821
Equipment rental	-	193
Fuel, oil, and lubricants	15,966	13,317
Insurance	55,051	58,676
Janitorial services	5,870	5,974
Meeting expense	623	781
Memberships and conferences	3,831	2,869
Office supplies	4,024	3,898
Professional services	15,395	15,568
Promotion and marketing	1,900	2,152
Repairs and maintenance	50,948	38,735
Supplies	7,870	2,542
Training	4,599	230
Uniforms	651	382
Utilities	29,455	28,360
Miscellaneous	938	6,531
Total General Operating Expenses	\$ 261,677	\$ 231,309
Fuel Farm Operations:		
Fuel purchases	\$ 1,405,801	\$ 794,693
Repairs and maintenance	4,788	2,191
Salaries	7,573	7,382
Miscellaneous	1,493	10
Total Fuel Farm Operations	\$ 1,419,655	\$ 804,276
TOTAL OPERATING EXPENSES	\$ 1,964,702	\$ 1,309,520

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

July 24, 2006

To the Airport Authority Board Members
Southwest Michigan Regional Airport Authority
Benton Harbor, Michigan

In connection with our examination of the books and records of the Southwest Michigan Regional Airport Authority for the year ended June 30, 2006, we offer the following recommendations.

GENERAL

1. The books and records were found to be balanced and well organized.
2. Supporting documentation was readily available for inspection.
3. The Organization's administration and accounting personnel displayed a high level of dedication and cooperation in performing their duties and assisting us in completing ours.

We appreciate the courtesy and cooperation extended to us by the officials and employees of the Southwest Michigan Regional Airport Authority and trust that these suggestions will be received in the spirit of cooperation in which they are offered.

If we can be of any assistance or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,


GERBEL & COMPANY, P.C.
Certified Public Accountants

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com

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